



GRANDY CORPORATION

泓迪有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8143)

First Quarterly Results Announcement For the three months ended 30 June 2005

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This announcement, for which the directors (the “Directors”) of Grandy Corporation (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* for identification purpose only

HIGHLIGHTS

1. The Group has recorded a total turnover of approximately HK\$6,082,000 for the three months ended 30 June 2005.
2. The Group has recorded a net loss for the three months ended 30 June 2005 of approximately HK\$884,000 representing a basic loss per share of HK\$0.32 cent.
3. The Directors do not recommend the payment of an interim dividend for the three months ended 30 June 2005.

FIRST QUARTERLY RESULTS (UNAUDITED)

The board (the “Board”) of Directors of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 30 June 2005, together with the unaudited comparative figures for the corresponding period in 2004 as follows:

		Unaudited	
		Three months ended	
		30 June	
		2005	2004
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER	3	6,082	4,696
Cost of sales		<u>(2,477)</u>	<u>(704)</u>
Gross profit		3,605	3,992
Other operating income		5	298
Selling and distribution costs		(432)	(267)
Administrative expenses		<u>(4,068)</u>	<u>(3,340)</u>
PROFIT/(LOSS) FROM OPERATIONS		(890)	683
Finance costs		<u>(17)</u>	<u>(113)</u>
PROFIT/(LOSS) BEFORE TAXATION		(907)	570
Taxation	4	<u>–</u>	<u>(168)</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		(907)	402
Minority interests		<u>23</u>	<u>17</u>
NET PROFIT/(LOSS) FOR THE PERIOD		<u>(884)</u>	<u>419</u>
EARNINGS/(LOSS) PER SHARE			
– Basic (HK cents)	5	<u>(0.32)</u>	<u>0.18</u>

NOTES TO THE UNAUDITED CONSOLIDATED RESULTS

1. General

The Company was incorporated in the Cayman Islands as an exempted company with limited liability. The shares of the Company are listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company acts as an investment holding company while its subsidiaries are engaged in the production, sourcing, sales and marketing, design and development of environmental products and ancillary services for combating environmental problems in the areas of energy-saving, enzyme treatments and waste water treatment businesses.

2. Basis of preparation

The unaudited consolidated results have been prepared under the historical cost convention and in accordance with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance and the GEM Listing Rules.

In 2004, the HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRS”) which are effective for accounting periods beginning on or after 1 January 2005. The Group has adopted the new HKFRS in the preparation of financial statements for the period from 1 April 2005 onwards. The adoption of these new HKFRS has no material impact on the Group’s results of operations and financial position for the three months ended 30 June 2005 except the following:

- Adoption of HKFRS 3 “Business combination”

In prior years, positive goodwill was recognised as an asset which was amortised on a straight line basis over its useful life of not more than 20 years.

Following the adoption of HKFRS 3, the Group ceased annual amortisation of positive goodwill, which arose from the acquisition of the subsidiary in the Republic of Korea, with its estimated useful economic life of 5 years. According to HKFRS 3, the positive goodwill should be tested for impairment annually. No retrospective adjustment has been made in respect of previously amortised goodwill.

The adoption of HKFRS 3 has decreased the Group’s loss for the three months ended 30 June 2005 by approximately HK\$116,000.

The accounting policies adopted in preparing the unaudited consolidated results are consistent with those followed in the preparation of the annual financial statements for the year ended 31 March 2005.

3. Turnover

Turnover represents the aggregate of net amounts received and receivable from third parties in connection with the sales of environmental protection products and provision of related services.

4. Taxation

No provision for taxation was made as the Group had no assessable profit for the period. Provision for profits tax was made for the subsidiary in the Republic of Korea at the relevant prevailing tax rate in 2004.

5. Earnings/(Loss) per share

The calculation of basic loss per share for the three months ended 30 June 2005 was based on the net loss for the period of approximately HK\$884,000 and on the weighted average number of 278,080,333 shares in issue during the period after adjusting for the effects of the share consolidation approved on 11 May 2005.

The calculation of basic earnings per share for the three months ended 30 June 2004 was based on the net profit for the period of approximately HK\$419,000 and on the weighted average number of 231,734,333 shares in issue during the period after adjusting for the effects of the share consolidation approved on 11 May 2005.

No diluted loss per share has been presented as there was no dilutive potential ordinary shares outstanding.

6. Capital and reserves

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Special reserve* <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2004	11,587	50,063	2,935	(12)	(47,174)	17,399
Net profit for the period	–	–	–	–	419	419
At 30 June 2004	<u>11,587</u>	<u>50,063</u>	<u>2,935</u>	<u>(12)</u>	<u>(46,755)</u>	<u>17,818</u>
At 1 April 2005	13,904	56,022	2,935	355	(54,220)	18,996
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	–	(280)	–	(280)
Net loss for the period	–	–	–	–	(884)	(884)
At 30 June 2005	<u>13,904</u>	<u>56,022</u>	<u>2,935</u>	<u>75</u>	<u>(55,104)</u>	<u>17,832</u>

* The special reserve represents the difference between the nominal amount of the shares issued by the Company and the aggregate amount of the share capital of a subsidiary acquired pursuant to a group reorganization in 2001.

As at 30 June 2004, the total issued share capital of the Company was HK\$11,586,717 divided into 1,158,671,667 shares of HK\$0.01 each. In January 2005, a total of 231,730,000 new shares of HK\$0.01 each were allotted and issued to Easeglory Holdings Limited.

On 12 May 2005, every five shares of HK\$0.01 each in the issued and un-issued share capital of the Company were consolidated into one consolidated share of HK\$0.05 each, resulting in 278,080,333 consolidated shares of HK\$0.05 each.

7. Dividend

The Directors do not recommend the payment of an interim dividend for the three months ended 30 June 2005 (2004: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the three months ended 30 June 2005, the Group recorded a turnover of approximately HK\$6,082,000 (2004: HK\$4,696,000), representing an increase of 30% over the same period last year. Loss attributable to shareholders of the Group for the three months ended 30 June 2005 was approximately HK\$884,000 while earnings attributable to shareholders of the Group for the corresponding period in 2004 was approximately HK\$419,000. The reason for the increase in loss was mainly due to the reduced profit margins in energy saving products, enzyme and waste water treatment businesses.

BUSINESS REVIEW AND OUTLOOK

Waste water treatment businesses

The Group's waste water treatment businesses for government projects are mainly carried out through the wholly-owned subsidiary, Youngdong Environmental Engineering Co. Ltd. in the Republic of Korea. The attributable turnover for the three months ended 30 June 2005 was approximately HK\$3,406,000 (2004: HK\$2,194,000), representing an increase of approximately 55% which was mainly due to increase in projects carried out for the Korean government.

The Group also provides cleansing and ancillary services to both public and private housing in Hong Kong for cleansing of fresh and flush roof tanks, sump tanks and water tanks. Other waste water treatments such as grease trap and under sink maintenance have been routinely carried out to commercial sectors in Hong Kong.

Energy saving products

The Group's energy saving division recorded a turnover of approximately HK\$1,680,000 for the three months ended 30 June 2005 (2004: HK\$1,272,000), representing an increase of approximately of 32%. The increase in sales was mainly due to success in the development of marketing network during the first quarter of 2005.

Enzyme treatments

The Group's enzyme treatments division recorded a turnover of approximately HK\$872,000 for the three months ended 30 June 2005 (2004: HK\$1,066,000), representing a decrease of 18%.

Nano products

Turnover for the nano products for the three months ended 30 June 2005 was approximately HK\$117,000 (2004: HK\$26,000). The increase was generated from the growth in sales to residential properties in Hong Kong. Management is of the view that the trend of these new products is positive and will experience continuous growth.

Food waste treatment and management

Turnover for the food waste treatment and management businesses for the three months ended 30 June 2005 was approximately HK\$7,000 (2004: HK\$138,000). The decrease in turnover was mainly due to government budget deficits which result in withholding of funds originally planned for the food waste projects.

Future prospects

Although the Group had suffered a loss in the first quarter, the Company's management is still positive about the outlook for the Group. The management believes that with the continual improvement of the macro economic environment and the increase in awareness of environmental protection among the general public, the Group will benefit from the demand of energy saving products, waste water treatment and enzyme products.

The Company's management anticipates that the Company is able to capitalize on the business networks of Mr. Yung Kwok Leong, the Company's Chairman, in the PRC market for the promotion of the products of the Group and thus captures more business opportunities. The established networks of Mr. Yung in the PRC can facilitate the Group's expansion in the PRC markets at a relatively lower cost.

DISCLOSURE OF INTERESTS

Directors' interests in shares, underlying shares and debentures

As at 30 June 2005, the interests of the Directors and chief executives of the Company and their respective associates in the shares of the Company and the underlying shares as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Future Ordinance ("SFO"), or which are required, pursuant to Rules 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name	Number of shares held	Capacity/Nature of interest	Approximate percentage of the issued share capital
Yung Kwok Leong	46,346,000	Corporate interest (Note a)	16.67%
Yung Muk Ying	46,346,000	Corporate interest (Note b)	16.67%
Chan Hon Chiu	4,156,798	Beneficial owner	1.49%
Yeung Kam Yan	3,795,237	Beneficial owner	1.36%

- (a) Easeglory Holdings Limited, a company incorporated in British Virgins Islands with limited liability, the entire issued share capital of which is owned by Mr. Yung Kwok Leong, who is the beneficial owner of these 46,346,000 shares.
- (b) Ms. Yung Muk Ying is deemed to have interest in 46,346,000 shares by virtue of her being the spouse of Mr. Yung Kwok Leong.

Save as disclosed above, as at 30 June 2005, none of the Directors or the chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of their associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept pursuant to section 352 of the SFC or otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors under Rule 5.46 of the GEM Listing Rules.

Directors' rights to acquire shares or debentures

Save as disclosed under the heading "Share options" below, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and neither the Directors nor any chief executives, nor any of their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

Substantial shareholders

As at 30 June 2005, the following persons or corporations, in addition to the Directors and their respective associated stated under the paragraph headed "Directors' interests in shares, underlying shares and debentures", have relevant interests in the issued share capital of the Company which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Name	Number of shares held	Approximate percentage of existing shareholding
Key Engineering Co., Ltd.	66,830,000	24.03%
Easeglory Holdings Limited (<i>Note a</i>)	46,346,000	16.67%
Top Rainbow Ltd. (<i>Note b</i>)	44,901,258	16.15%
Yang Pei Gen (<i>Note c</i>)	44,901,258	16.15%
Lu Jin Ming (<i>Note d</i>)	44,901,258	16.15%

- (a) Easeglory Holdings Limited, a company incorporated in British Virgins Islands with limited liability, the entire issued share capital of which is owned by Mr. Yung Kwok Leong, who is the beneficial owner of these 46,346,000 shares.
- (b) Top Rainbow Ltd., a company incorporated in the British Virgins Islands, is the beneficial owner of these 44,901,258 shares.
- (c) Mr. Yang Pei Gen is deemed to have interest in 44,901,258 shares by virtue of his equity interest in Top Rainbow Ltd.
- (d) Ms. Lu Jin Ming is deemed to have interest in 44,901,258 shares by virtue of her being the spouse of Mr. Yang Pei Gen.

Save as disclosed above, the Directors were not aware of any other person (other than the Directors or the chief executives of the Company) who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Share options

Details of share options to subscribe for shares in the Company granted to participants under two share option schemes of the Company during the three months ended 30 June 2005 were as follows:

(a) *Pre-listing share option scheme*

A summary of the pre-listing share options which are exercisable in three equal tranches from 10 November 2002, 10 May 2003 and 10 May 2004, respectively, to 9 May 2012 at an exercise price of HK\$0.14 per share is as follows:

Type of participants	Number of share options (after adjusting for the effects of the share consolidation approved on 11 May 2005)		
	Outstanding at 1 April 2005	Lapsed/ cancelled during the period	Outstanding at 30 June 2005
Advisor	480,000	–	480,000
Former employees	320,000	–	320,000
	800,000	–	800,000

The total number of shares in respect of which options are issuable under this pre-listing share option scheme was 800,000, representing approximately 0.29% of the issued share capital of the Company at 30 June 2005. None of the options has been exercised during the period.

(b) Post-listing share option scheme

Details of the movements in the number of share options during the period under the Company's post-listing share option scheme which are exercisable in two equal tranches from 9 May 2003 and 9 May 2004, respectively to 9 May 2005 at an exercise price of HK\$0.18 per share are as follows:

Type of participants	Number of share options (after adjusting for the effects of the share consolidation approved on 11 May 2005)		
	Outstanding at 1 April 2005	Lapsed during the period	Outstanding at 30 June 2005
Advisor	1,429,000	(1,429,000)	–
	<u>1,429,000</u>	<u>(1,429,000)</u>	<u>–</u>

DIRECTORS' SERVICE CONTRACTS

There is no service contract entered into between the Company and Mr. Yung Kwok Leong. All the other executive Directors have entered into service contracts with the Company for an initial term of two years commencing on 10 May 2002 which will continue thereafter until terminated by either party giving to the other party not less than six months' notice in writing during the initial term and three months' notice in writing during any renewed term after the first two years.

Mr. Chan Ping Kuen Francis has entered into a service contract with the Company for a period of one year commencing from 27 September 2004 which will continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing. All the other independent non-executive Directors have been appointed for an initial term of one year commencing on 10 May 2002 which will continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing.

Save as disclosed above, none of the Directors has any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

COMPETING INTERESTS

None of the Directors or management shareholders (as defined in the GEM Listing Rules) of the Company or their respective associates has any interest in the business which competes or may compete with the business of the Group.

PRE-EMPTIVE RIGHTS

There is no provision for the pre-emptive rights under the Company's Articles of Association or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

During the three months ended 30 June 2005, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company established an audit committee on 2 November 2001, with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules.

The primary duties of the audit committee are (i) to review the annual reports and accounts, half-year reports and quarterly reports and give advice and comments thereon to the Directors; and (ii) to review and supervise the financial reporting process and internal controls. The audit committee comprises the three independent non-executive Directors of the Company.

The audit committee had held a meeting to review the Group's results for the three months ended 30 June 2005.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the three months ended 30 June 2005.

On behalf of the Board of
Grandy Corporation
Yung Kwok Leong
Chairman

Hong Kong, 12 August 2005

As at the date of this announcement, the executive Directors of the Company are Mr. Yung Kwok Leong, Mr. Chan Hon Chiu and Mr. Yeung Kam Yan. The Independent non-executive Directors of the Company are Mr. Chan Ping Kuen, Francis, Mr. Hsu Shiu Foo, William and Mr. Yu Chai Mei.

This announcement will remain on the "Latest Company Announcements" of the GEM for at least 7 days from the date of its posting and the website of the Company at www.grandy.com.hk.